

How to Prepare for Caltrans Audits

Details on Indirect Cost Rate Audits and Reviews

Presented by
IntelliBridge Partners

October 1, 2013

Session Schedule

1. Introductions
2. Background Discussion
3. Workshop Objectives
4. Purpose of Audits
5. Process Overview, Requirements & Assistance
6. Safe Harbor Indirect Cost Rate
7. Wrap up

Introductions – IntelliBridge Partners



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IntelliBridge Partners is a subsidiary of Macias Gini & O'Connell, LLP.

Government Auditors & Consultants

We service the following:

- State Departments and Agencies
- Cities
- Counties
- Special Districts
- Hospitals/Healthcare
- Utility Companies
- Transportation Districts, Authorities, Commissions, etc.
- A&E firms

Why We Are Here

- Changes: January 1, 2013 - requirement for all new A&E consultant contracts submitted to Caltrans Audits and Investigations to follow the new risk-based audit procedures contained in the Local Assistance Procedures Manual and 2013 updates.
- Caltrans' Division of Audits & Investigations has been conducting seminars to communicate common issues encountered within the indirect cost rate and contract audit process.

Introductory Discussion

Please introduce
yourself.

Has your firm has been through a pre-
award, interim, or post-award Caltrans
audit?

What was your
experience?

Introductory Discussion



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What specific questions do you hope this presentation will answer?

Workshop Objectives:



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1. To help you better understand audit guidelines and requirements of Caltrans audits performed according to the new Local Assistance Procedures Manual (LAPM) requirements.
2. To help you become aware of what systems should be in place, what documents you should be prepared to provide, and information about indirect cost rates.
3. In general, we will explain how a CPA or consulting firm can assist your efforts compiling documents and meeting requirements.

What is the Purpose of these Audits?

Simply, for accountability.

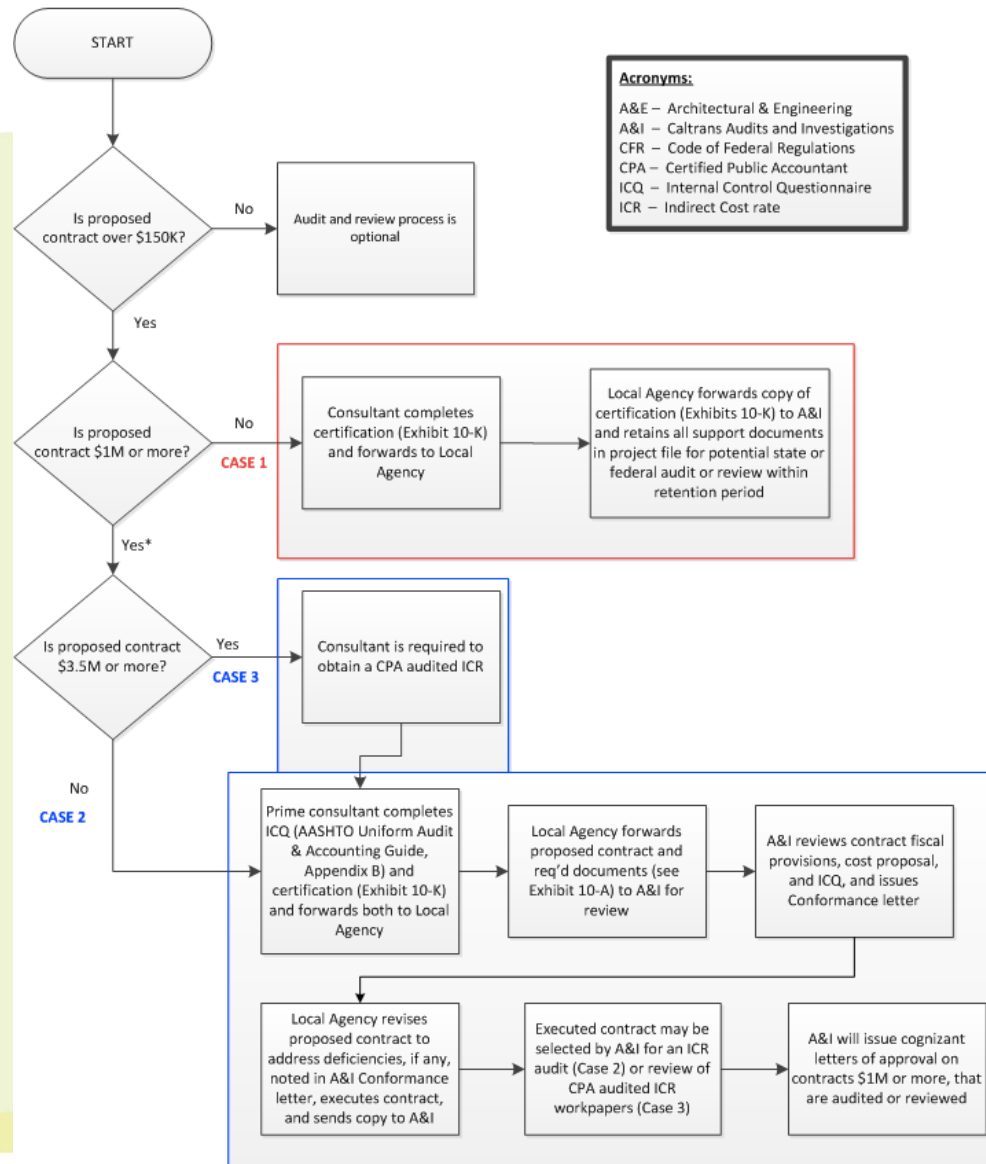
- To ensure safeguarding of public funds, to provide assurance that funds are used in compliance with federal regulations.
- If you are a subcontractor, no matter how small your piece of the contract is, if the total contract value is over \$1M, you are subject to these rules.

Purpose of Audits

Accountability: If your firm wants to do work with Caltrans, or receive local assistance funds or are a sub for a prime bidding on such a project, your firm is responsible for:

- Fair presentation of the billed costs.
- Ensuring compliance with the Agreement, (i.e. your contract with the Transportation/Authority/Agency) as well as provisions and State and Federal regulations, and;
- The adequacy of your financial management system to accumulate and segregate reasonable, allocable, and allowable costs.

Process Overview – see handout



* Note: For A&E consultant contracts of \$1M or more, local agency may begin, but not conclude cost negotiations with the best qualified firm until a Conformance Letter is received from A&I.

Short List of Items Needed



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- Contracts
- Chart of Accounts
- Accounting policies and procedures
- Time keeping policies and procedures
- Audited Financial Statements from the last three years: balance sheet, income, cash flow
- Indirect cost rate audits and back up documentation

How we can provide assistance:

We will review the following for completeness and compliance:

- Contract with prime A&E consultant
- Contract between prime and sub-consultants
- Contract between your firm and the local agency

We will look for conformance to pertinent laws, regulations, AASHTO, and LAPM procedures with pertinent contractual provisions.

If your contract is over \$3.5M:

Review and evaluate the consultant's and any sub-consultants' validated cost rate schedules and provide feedback on any deficiencies.

Validated cost rate schedule will consist of one of the following:

Contracts over \$3.5M

- Prior and current fiscal year cognizant approved indirect cost rate(s) and approved state DOT letters for the consultant; or
- Prior and current fiscal year indirect cost rate(s) audited by an independent CPA; or
- Prior and current fiscal year indirect cost rate(s) evaluated on a prior Caltrans or Local Agency contract.

Contracts over \$3.5M

Review and evaluate your required documentation and provide feedback on any deficiencies or areas where we recommend clearer or more complete documentation:

- Internal Control Questionnaire (AASHTO Accounting and Audit Guide, Appendix B).
- A&E Consultant Audit Request Letter and Checklist (LAPM Exhibit 10-A).

Contracts over \$3.5M

- Local Agency Certification of Cost Analysis (LAPM Exhibit 10-L).
- Certification of Contract Costs and Financial Management System (LAPM Exhibit 10-K).

How we can Help – ICR Audit Report

Lastly, we can gather any CPA audited financial data:

If the consultant and any sub-consultants do not possess:

- either a state DOT's approved ICR schedule and the Cognizant Letter of Approval
- or a CPA Audited ICR Audit Report, as required by the Caltrans' LAPM,

the production of a CPA-audited ICR Audit Report will need to be conducted. (Exception: Safe Harbor)

How we can Help -- AASHTO ICQ Attachments



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We can help you to gather the following items as Attachments to ICQ (Internal Control Questionnaire):

- FAR Part 31 Overhead Audit Report for most recent fiscal year, including audited Statement of Direct Labor, Fringe Benefits, and General Overhead (hereinafter “Indirect Cost Rate Schedule”) and related reconciliation to the financial statements.
- Cognizant audit report or cognizant letter of concurrence from the cognizant Government agency.
- Post-closing trial balance and financial statements (balance sheet, income statement, and statement of cash flows) for the most recent fiscal year.

AASHTO ICQ Attachments:

Current chart of accounts that ties to financial statements and indirect cost rate schedule.

- Independent Auditor's Report on financial statements and accompanying management letter.
- Sample timesheet.
- The Company's policies for vacation and sick leave.
- The Company's bonus policy.
- Other written policies, as requested throughout the ICQ.

How we can Help – Cost Proposals



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We can review your cost proposal for appropriate formatting, including a detailed breakdown of allowable/unallowable costs.

- Verify the total cost calculations

How we can Help – Validate Indirect Cost Rates

Validate costs aligned with indirect cost rate schedule.

A FAR compliant Indirect Cost Rate (ICR) which requires:

A project/job cost system designed to segregate direct, indirect and unallowable costs.

What if you don't have an audited Indirect Cost rate?

You will need detailed financial information:

- Your internal calculations and backup documentation to justify overhead rates provided in the contracted rates.
- General Ledger
- Profit and Loss Statement

Financial System Requirements

Specifically, your financial system should have the following key functionalities/capabilities:

- Ability to identify and accumulate direct costs by contract
- Accumulate costs under GL control, i.e. separate G/L account for direct/indirect/unallowable costs
- Ability to charge direct and indirect labor by contract
- Ability to exclude unallowable costs to contracts.

Additionally, you should be performing a reconciliation of costs charged to contracts

Other Items Needed

Policies and Procedures

You'll need written procedures that cover how your employees charge their labor hours. Caltrans requires procedures for the following:

- All employees have to record all hours worked, paid or unpaid, even if over 40 hours a week.
- Must account for uncompensated OT
- Must ensure proper distribution of labor costs
- Must be periodically reconciled to the GL (monthly)

Safe Harbor Rate

FHWA developed national Safe Harbor Rate (SHR) of 110% for eligible A&E firms to use on a test-evaluation basis: July 1, 2103 to June 30, 2016.

- Firms that do not have relevant contract cost history to use as a base for developing an indirect cost rate.
- Firms that do not have a previously accepted ICR or an audited/accepted actual ICR.

Safe Harbor Rate

Requirements:

- All firms must have an adequate project cost accounting system that accumulates and segregates labor, other direct, and indirect costs and removes unallowable costs.
- Established fixed hourly labor rates.
- SHR is not adjustable
- No retroactive adjustments to indirect costs will be allowed.
- SHR impacts indirect costs only. All other FAR cost principles must be followed.

Safe Harbor Rate

To use the SHR, eligible firms must submit the following with their cost proposals:

- Consultant certification of eligibility; and contract costs and financial management system.
- Questionnaire for evaluation consultant's financial management system.

Caltrans Audits and Investigations (A&I) will review documentation and issue an acceptance or rejection.

Wrap up



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Questions? Comments?

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Thank you for participating!